INTRODUCTORY STATEMENT

# PRESS CONFERENCE

## Mario Draghi, President of the ECB,Luis de Guindos, Vice-President of the ECB,Frankfurt am Main, 25 July 2019

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Ladies and gentlemen, the Vice-President and I are very pleased to welcome you to our press conference. We will now report on the outcome of today’s meeting of the Governing Council, which was also attended by the Commission Vice-President, Mr Dombrovskis.

Based on our regular economic and monetary analyses, we decided to keep the **key ECB interest rates** unchanged. We expect them to remain at their present or lower levels at least through the first half of 2020, and in any case for as long as necessary to ensure the continued sustained convergence of inflation to our aim over the medium term.

We intend to continue reinvesting, in full, the principal payments from maturing securities purchased under the asset purchase programme for an extended period of time past the date when we start raising the key ECB interest rates, and in any case for as long as necessary to maintain favourable liquidity conditions and an ample degree of monetary accommodation.

The Governing Council also underlined the need for a highly accommodative stance of monetary policy for a prolonged period of time, as inflation rates, both realised and projected, have been persistently below levels that are in line with its aim. Accordingly, if the medium-term inflation outlook continues to fall short of our aim, the Governing Council is determined to act, in line with its commitment to symmetry in the inflation aim. It therefore stands ready to adjust all of its instruments, as appropriate, to ensure that inflation moves towards its aim in a sustained manner.

In this context, we have tasked the relevant Eurosystem Committees with examining options, including ways to reinforce our forward guidance on policy rates, mitigating measures, such as the design of a tiered system for reserve remuneration, and options for the size and composition of potential new net asset purchases.

Incoming information since the last Governing Council meeting in early June indicates that, while further employment gains and increasing wages continue to underpin the resilience of the economy, softening global growth dynamics and weak international trade are still weighing on the euro area outlook. Moreover, the prolonged presence of uncertainties, related to geopolitical factors, the rising threat of protectionism, and vulnerabilities in emerging markets, is dampening economic sentiment, notably in the manufacturing sector. In this environment, inflationary pressures remain muted and indicators of inflation expectations have declined. Therefore, a significant degree of monetary stimulus continues to be necessary to ensure that financial conditions remain very favourable and support the euro area expansion, the ongoing build-up of domestic price pressures and, thus, headline inflation developments over the medium term.

Let me now explain our assessment in greater detail, starting with the **economic analysis**. Following a rise of 0.2% in the fourth quarter of 2018, euro area real GDP increased by 0.4%, quarter on quarter, in the first quarter of 2019. Incoming economic data and survey information continue to point to somewhat slower growth in the second and third quarters of this year. This mainly reflects the ongoing weakness in international trade in an environment of prolonged global uncertainties, which are particularly affecting the euro area manufacturing sector. At the same time, activity levels in the services and construction sectors are resilient and the labour market is still improving. Looking ahead, the euro area expansion will continue to be supported by favourable financing conditions, further employment gains and rising wages, the mildly expansionary euro area fiscal stance and the ongoing – albeit somewhat slower – growth in global activity.

The risks surrounding the euro area growth outlook remain tilted to the downside, reflecting the prolonged presence of uncertainties, related to geopolitical factors, the rising threat of protectionism, and vulnerabilities in emerging markets.

Euro area annual HICP inflation increased to 1.3% in June 2019, from 1.2 % in May, as higher HICP inflation excluding food and energy more than offset lower energy price inflation. On the basis of current futures prices for oil, headline inflation is likely to decline over the coming months, before rising again towards the end of the year. Looking through the recent volatility due to temporary factors, measures of underlying inflation remain generally muted. Indicators of inflation expectations have declined. While labour cost pressures have strengthened and broadened amid high levels of capacity utilisation and tightening labour markets, the pass-through of cost pressures to inflation is taking longer than previously anticipated. Over the medium term underlying inflation is expected to increase, supported by our monetary policy measures, the ongoing economic expansion and stronger wage growth.

Turning to the **monetary analysis**, broad money (M3) growth stood at 4.5% in June 2019, after 4.8% in May. Sustained rates of broad money growth reflect ongoing bank credit creation for the private sector and low opportunity costs of holding M3. The narrow monetary aggregate M1 continues to be the main contributor to broad money growth on the components side.

The annual growth rate of loans to non-financial corporations remained unchanged at 3.8% in June 2019. Notwithstanding some moderation from the peak recorded in September 2018, the annual growth rate of loans to non-financial corporations continues to be robust. The annual growth rate of loans to households also remained unchanged at 3.3% in June, continuing its gradual improvement. Overall, loan growth is still benefiting from historically low bank lending rates. The euro area bank lending survey for the second quarter of 2019 indicates that loan growth continued to be supported by increasing demand across all loan categories. At the same time, credit standards for loans to enterprises tightened in the second quarter amid concerns about the economic outlook, while they remained broadly unchanged for loans for house purchase.

Our monetary policy measures, including the forthcoming new series of targeted longer-term refinancing operations (TLTRO III), will help to safeguard favourable bank lending conditions and will continue to support access to financing, in particular for small and medium-sized enterprises.

To sum up, a **cross-check** of the outcome of the economic analysis with the signals coming from the monetary analysis confirmed that an ample degree of monetary accommodation is still necessary for the continued sustained convergence of inflation to levels that are below, but close to, 2% over the medium term.

In order to reap the full benefits from our monetary policy measures, other policy areas must contribute more decisively to raising the longer-term growth potential and reducing vulnerabilities. The implementation of **structural reforms** in euro area countries needs to be substantially stepped up to boost euro area productivity and growth potential, reduce structural unemployment and increase resilience. The 2019 country-specific recommendations should serve as the relevant signpost. Regarding **fiscal policies**, the mildly expansionary euro area fiscal stance is providing support to economic activity. At the same time, countries where government debt is high need to continue rebuilding fiscal buffers. All countries should reinforce their efforts to achieve a more growth-friendly composition of public finances. Likewise, the transparent and consistent implementation of the European Union's fiscal and economic governance framework over time and across countries remains essential to bolster the resilience of the euro area economy. Improving the functioning of Economic and Monetary Union remains a priority. The Governing Council welcomes the ongoing work and urges further specific and decisive steps to complete the banking union and the capital markets union.

We are now at your disposal for questions.

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**Mr Draghi, could you perhaps elaborate whether this decision to pronounce a potential package as soon as September was taken unanimously?**

**The second question would be on the potential APP; are there any restrictions in terms of asset classes or do you look at the whole variety of what is out there?**

First let me give a sort of summary account of our discussion as it's taken place. First of all, the first discussion where there was broad agreement, broad convergence of views, was the assessment of the current outlook; namely an outlook where you still see signs of strength in the economy as I just read. Labour market and nominal wage growth support consumption. Generally speaking, you have resilience in the service sector and the construction sector. At the same time, this outlook is getting worse and worse and it's getting worse and worse in manufacturing especially. It's getting worse and worse in those countries where manufacturing is very important. But because of value chains, this propagates all over the Eurozone and so this must be taken into account. The reasons were basically found to be in the general uncertainty that's now been with us for several months, actually more than a year, and which relates as I said many times to trade wars, to geopolitical tensions, too.

Now, also the possibility of a hard Brexit certainly is another factor to take into account and the slow rotation of the Chinese economy, all these factors and probably others are affecting the present outlook and weakening it. That's the situation. Our last projections were in a sense suggesting that we might have had a rebound in the second part of the year. Now incoming signs show weakness of growth in the third quarter as well. So this rebound becomes less likely now. All in all, the balance of risk was assessed to be on the downside, for the reasons that I've just mentioned, and also for the very fact that the simple – and this point I've made at other times – the simple prolonged lingering of this uncertainty is by itself a materialisation of one of these risks. On the inflation side, we basically saw inflation which is below our aim and we see projected inflation that says that convergence is further out in time, though as I've said on another occasion, the informational content of market-based inflation expectations has to be assessed, taking into account certain technical conditions of these markets. However also in the SPF, the Survey of Professional Forecasters, inflation expectations have gone down so that's what led the Governing Council to these proposals, to the various proposals. So, if I can go through them again: First of all the introduction of the easing bias through the introduction of the word “lower”, and at least through the first half of 2020 and in any case, for as long as necessary to ensure the continued sustained convergence of inflation to our aim over the medium term. You will see in the set of proposals all over a consistent degree of optionality, very much in the same way we've done on other occasions. We intend to continue reinvesting in full the principle payments for maturing securities purchased under the asset purchase programme for an extended period of time past the date when we start raising the key ECB interest rates, and in any case, for as long as necessary to maintain favourable liquidity conditions and an ample degree of monetary accommodation.

Then we move to this point where we underline the need for a highly accommodative stance on monetary policy for a prolonged period of time. The acknowledgement that inflation rates, both realised and projected, have been persistently below levels that are in line with our aim. This again is new to our language. Then it says accordingly if the medium term – and this is the trigger for our action, which basically reflects very much what I'd said in Sintra – outlook continues to fall short of our aim, the Governing Council is determined to act. That's the third point; determination to act. Then there is another new language here: in line with its commitment to symmetry in its inflation aim. So that's another part of the language that is new. That says again what I said in Sintra but it moves a step forward; namely that we stand ready to adjust all of our instruments as appropriate to ensure that inflation moves towards its aim in a sustained manner.

Then there is another new part where we say that we've tasked the relevant Eurosystem Committees, so we not only affirm our determination but we move a step forward. We task the committees with examining options, including ways to reinforce our forward guidance on policy rates, mitigating measures such as the design of a tiered system for reserve remuneration and options for the size and composition of potential new net asset purchases.

To answer your question - was this unanimous? We had a broad discussion. On certain things we converged, like the outlook. On other things most people converged with this, otherwise we wouldn't have this in the introductory statement. But again whenever we have a package so complex as this, you would expect that people have different nuances about different parts of the package. The point is that it was approved as a package after a fairly broad discussion, by converging to what I have just read to you. So that's what it is at this point in time.

You asked me more specifically about the mandate to the committees. It's a broad mandate. We're here, we have a list, that's what we know, that's where we stand, ready to act. That's what we have had in the past and that's what the language says, basically.

**The first question is about the ECB's objective. The close, but below, 2% is no longer in the monetary policy decision; it's in your introductory statement but not in the decision, so does that mean something? Can we expect the ECB to rephrase, redefine its policy objective?**

**The second question is about the constraints that the ECB has chosen to force upon itself on the PSPP. Now, there are two key constraints; one is the capital key and the other one is the**